/here
our tax
ollars go

mer 1992

nada

Where your tax dollars go

Summer 1992

Canada

Cette brochure est également offerte en français.

INTRODUCTION

In preparing this year's federal budget, the government listened carefully to the concerns and priorities of Canadians from every region and economic sector. The consensus was clear:

- Canadians wanted action to restore economic confidence and strengthen the foundations of economic recovery and sustained growth.
- They also wanted progress on cutting the deficit and stopping the growth of the public debt. Canadians understand that more borrowing leads inevitably to higher taxes, and they want an end to rising taxes.
- To help meet the deficit challenge, Canadians wanted government streamlined. They wanted less government – less regulation, less duplication – and more effective service.

The budget responded to this desire for a more expansive economy and a less expensive government.

The budget announced tax cuts for every taxpayer, and for the important manufacturing and processing sector. But the budget balanced these reductions with cuts in planned government spending – to make sure the deficit falls sharply in 1992-93 and beyond. It also introduced measures to restructure and streamline government operations.

Underlying the government's spending decisions is a continuing commitment to good financial stewardship. Spending restraint and deficit reduction will help make further progress in lowering inflation, interest rates and taxes.

This is why our government is committed to doing what it takes – including further spending cuts if needed – to bring the deficit down sharply this year. By doing so, we are helping ensure a return to prosperity and sustained growth for Canada into the 21st Century.

Cutting the deficit requires discipline and tough decisions. It is important for Canadians to understand how their tax dollars are spent, and the relationship between this spending and the deficit and debt. This booklet provides basic information on these vital issues.

Don Mazankowski
Minister of Finance

July 1992

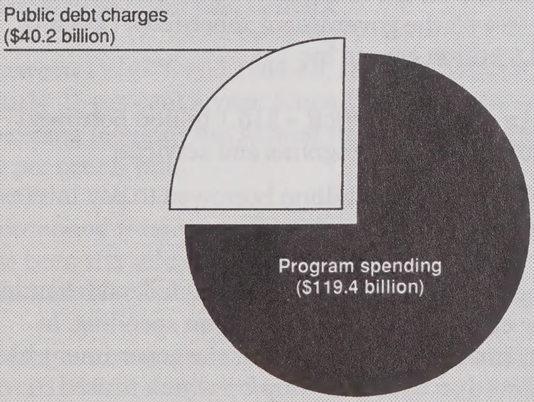
Department of Finance Canada | Ministère des Finances Canada

HIGHLIGHTS

Federal government spending this year[1] is budgeted at $159.6 billion.

- Interest payments on the federal debt are expected to be $40.2 billion, or 25 cents of each dollar spent.
- Spending on federal programs and services is planned at $119.4 billion, or 75 cents of each dollar spent.
- More than half of this program spending – $66.5 billion – involves payments to individuals (such as unemployment insurance or old age security) or transfers to provinces to assist in areas such as education and health care.

Federal government spending: 1992-93



[1] All figures are based on the February 1992 budget for the fiscal year April 1, 1992 - March 31, 1993.

BRINGING DOWN THE DEFICIT

The 1992 budget set a target for this year's deficit – the shortfall when spending exceeds revenues – of $27.5 billion.

This represents a major improvement over the 1991-92 deficit (estimated at $31.4 billion in the budget). It will also be the lowest deficit since 1981-82.

Meeting this target will not be easy. Government revenues are lower than expected due to the weaker-than-expected economy at the start of the year. But the government is committed to doing what is needed – including further spending cuts – to cut the deficit as planned.

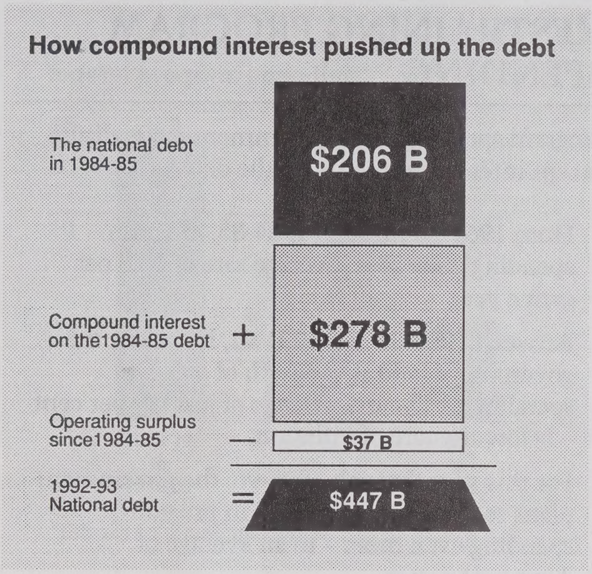
The operating surplus

The deficit will be entirely due to the interest payments on the national debt. By comparison, in 1984-85 the government inherited a deficit of $38.5 billion caused by:

- *An operating deficit* – $16.1 billion borrowed just to pay for programs and services;
- A further $22.4 billion borrowed to pay interest on the debt.

Largely due to spending restraint, federal revenues now cover the cost of all program spending. In fact, since 1987-88, each year the government has achieved an *operating surplus* which is used to pay part of the interest on the debt.

In the February 1992 budget, this year's operating surplus was estimated at $12.7 billion.



The debt treadmill

By the end of this year, the national debt will reach $447 billion. It represents the money borrowed to cover past deficits.

Between 1974-75 and 1984-85, the debt increased nearly 25 per cent a year. Since 1984-85, however, spending restraint has slowed this growth to about 10 per cent a year.

Compound interest on the original 1984-85 debt has been the **sole** cause for the growth of the national debt since 1984-85.

In fact, without the net operating surplus achieved since 1984-85, the debt this year would be about $37 billion larger.

RESTRAINING PROGRAM SPENDING

Program spending is all government expenditure except interest payments on the debt.

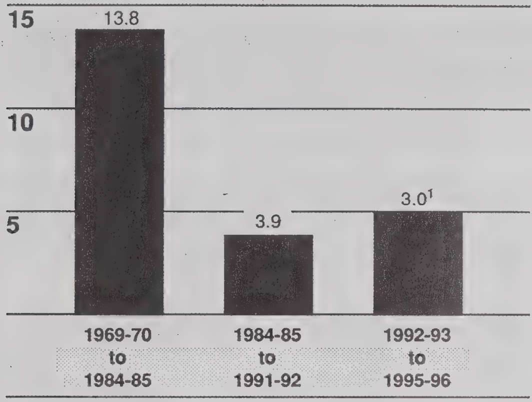
- From 1969-70 through 1984-85, program spending grew at an average rate of 13.8 per cent a year.
- Between 1984-85 and 1991-92, however, the government held the growth of program spending to a yearly average of just 3.9 per cent – below the rate of inflation.
- For this year through 1995-96, the government plans to restrain the growth in program spending even more – to an average of 3 per cent a year.

The Expenditure Control Plan

Since 1984-85, the government has taken tough action to restrain spending and improve efficiency. This includes the Expenditure Control Plan introduced in the 1990 budget and expanded in 1991.

- Federal wage settlements have been frozen for 12 months, and will only grow by 3 per cent in the following year.
- Salaries for Members of Parliament and Senators were frozen for 1992. For the next year, increases will be limited to 3 per cent.
- Limits have been placed on the growth of certain transfers to provincial governments for a five-year period (through 1995-96).

Average annual percentage growth in federal program spending



[1] Estimate in February 1992 budget.

The government also strengthened its Expenditure Control Plan by passing two important laws.

- The *Spending Control Act* imposes mandatory limits on some 85 per cent of program spending (the exceptions are certain self-financing programs such as unemployment insurance). Spending above these limits must be offset by cuts in other areas.
- The *Debt Servicing and Reduction Account.* It will receive all net revenues from the GST, as well as the proceeds from privatization and gifts to the Crown. These funds will be used entirely to pay interest on the national debt and, over time, to pay down the debt itself.

CUTTING SPENDING TO CUT TAXES

The 1992 budget was introduced at a time when Canada was being buffeted by global economic weakness (especially in the U.S., our largest export market).

To help restore economic confidence and boost investment, growth and job creation, the budget cut taxes in two important areas:

- The personal income surtax is being cut by 1 per cent on July 1, and another 1 per cent on January 1, 1993. This will reduce the federal tax burden on all taxpayers by $500 million in 1992 and over $1.2 billion every year after that.
- Tax measures worth almost $2.3 billion over 5 years were introduced to help make Canada's manufacturing and processing sector more competitive.

At the same time, the government acted to make certain that these tax cuts did not mean an increase in the federal deficit. To pay for the tax cuts, the government also cut spending.

- Defence spending is being cut by $2.2 billion over five years – a peace "dividend."
- Forty-six agencies and organizations are being eliminated, streamlined, privatized or deferred.
- Non-wage operating budgets of federal departments are being cut by 3 per cent, saving $800 million over five years.
- Federal grants and contributions will be reduced by $375 million over five years.
- Pay for the Prime Minister and cabinet was cut by 5 per cent.

- Communications budgets are being reduced by $75 million annually – a saving of $375 million in the next five years.

An end to government borrowing

A debt that took decades to build – and the deficits that it now produces – cannot be eliminated overnight. This problem has been compounded by Canada's slower-than-expected return to economic growth, which has reduced federal revenues.

Despite these challenges, the government is committed to bringing the deficit down this year and each year beyond. This is an essential step to help control inflation, keep interest rates down, and allow governments to lower taxes.

Through the combination of spending restraint and a return to sustained economic growth, Canada will soon reach a major milestone: in 1995-96, the government will no longer have to borrow new funds in financial markets. It can then begin paying off Canada's enormous debt.

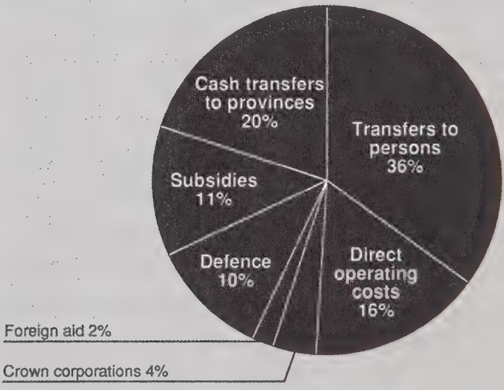
1992-93 PROGRAM SPENDING

This year, about 75 per cent of total government spending – $119.4 billion – will go to the programs and operations of government. This spending falls into seven major categories:

- **Transfers to persons**
- **Transfers to other levels of government**
- **Other major transfers**
- **Crown corporations**
- **Defence**
- **Assistance to developing nations**
- **Other government operations**

Highlights of each program area are reviewed in the following pages.

The structure of program spending: 1992-93



(Numbers may not add due to rounding.)

MAJOR TRANSFERS TO PERSONS

The government will spend over $42.3 billion on direct income support to individuals in 1992-93. These transfers are the largest portion – 36 per cent – of all program spending.

The elderly

This is the largest and one of the fastest growing areas of program spending.

Over three million seniors will receive $19.5 billion through old age security payments, the guaranteed income supplement and spouses' allowances. (A further $1 billion in assistance will be provided through two tax measures: the age credit and the pension income credit.)

Since 1984-85, this cash spending has grown an average of 6.9 per cent a year. This is due to the growing number of seniors and the indexation of benefits to inflation.

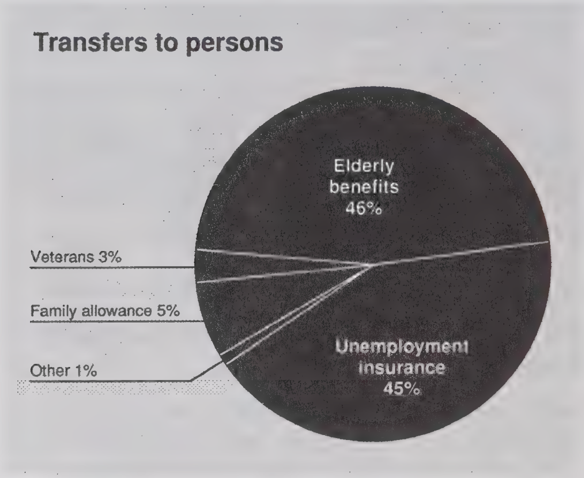
The unemployed

Unemployment insurance payments are expected to approach $19 billion in 1992-93. Benefits go to eligible Canadians seeking work, people absent from work due to sickness or maternity/paternity leave, and those in eligible job-training programs.

Child benefits

The family allowance is paid monthly to families with dependent children under 18 years old. This year, the government expects to pay about $2.2 billion to some 3.7 million families.

The government also assists children through tax credits, estimated at $2.6 billion this year. In the budget, the government announced plans to restructure and substantially enrich the child benefit system (see page 13).



Veterans' benefits

Direct spending on veterans' disability pensions and other veterans' allowances and benefits will exceed $1.4 billion. These benefits are fully indexed to inflation, and spending this year will be about 25 per cent higher than in 1984-85.

The GST Credit

The government will also make cash payments this year of $2.5 billion to some 8.9 million Canadian families and individuals under the GST Credit. Because these quarterly payments are subtracted from GST revenues, they are not included in program spending.

This credit ensures that low- and modest-income Canadians are better off under the GST than with the Manufacturers' Sales Tax it replaced.

An Enriched Child Tax Benefit

The government assists children both through the family allowance and through a variety of tax credits.

In the February budget, the government announced its plan to restructure the child benefit system. Beginning in January 1993, the existing patchwork of child benefits would be replaced by a new Child Tax Benefit delivered through the tax system.

The new system will enrich total federal child benefits by $2.1 billion over the next five years.

Aspects of the proposed restructuring include:

- The family allowance, child credit and refundable child tax credit will be consolidated into one unified benefit of $1,020 per child.
- This benefit will be targeted to low- and middle-income families.
- For low-income working families with children, the Child Tax Benefit will also include a new earned-income supplement of up to $500 per family.

Over 3.1 million families will continue to receive a monthly cheque, as they currently do under the family allowance program. However, unlike family allowance, the new benefit will not be subject to tax.

MAJOR TRANSFERS TO OTHER LEVELS OF GOVERNMENT

The federal government will provide $38.9 billion in cash and tax transfers to provincial, territorial and municipal governments.

- $24.2 billion represents cash payments budgeted under major transfer programs, such as Equalization.
- $12.7 billion is through tax transfers. These allow provincial governments to receive a portion of taxes that would otherwise go to the federal government.
- A further $2 billion in cash transfers is provided under a number of specific programs, such as support for provincial spending related to young offenders and legal aid. This additional spending is listed under Other Major Transfers.

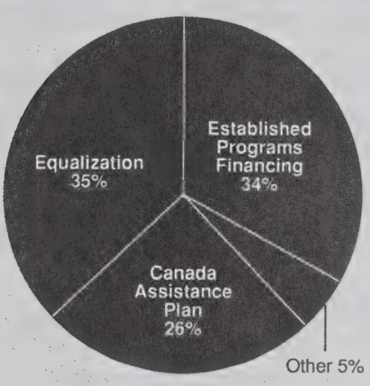
Since 1984-85, major cash and tax transfers to other levels of government have grown at an annual rate of 5.4 per cent – higher than the growth in overall program spending.

Given their size and growth, these transfers are too large to exempt from the commitment to deficit control. That is why the government has limited the rate of increase in some transfers. **They will still grow, but at a slower pace**.

Established Programs Financing (EPF)

Through EPF, the government provides equal per-person amounts to the provinces which may be used for health care, education or other provincial priorities. Federal cash and tax contributions this year will exceed $20.7 billion, of which $8.1 billion is in cash payments.

Major transfers to other levels of government (cash portion)



Under spending restraint, every province's EPF entitlement will remain at $752 per person until 1994-95. This means that EPF funding grows only with an increase in a province's population.

Equalization

Equalization funding helps ensure that provinces can provide similar levels of public services at reasonably comparable levels of taxation. A formula is used to determine which provinces need Equalization funding and how much they will receive.

This year, all but three provinces – Alberta, British Columbia and Ontario – will receive support. Cash payments will be about $8.5 billion. This program is not affected by the Expenditure Control Plan.

Canada Assistance Plan (CAP)

Federal CAP contributions help all provinces provide social assistance to needy Canadians. Total cash payments will be about $6.3 billion.

Under Expenditure Control, CAP contributions to the three higher-income provinces – Alberta, B.C. and Ontario – can increase by a maximum of 5 per cent each year. For the other provinces, the government continues to match all eligible social assistance spending dollar-for-dollar.

Other transfers to governments

Other transfers largely involve payments to territorial governments to help them provide services; grants to municipal governments in place of federal property taxes; and payments under the Public Utilities Income Tax Transfer Act. These transfers will total about $1.3 billion.

OTHER MAJOR TRANSFERS

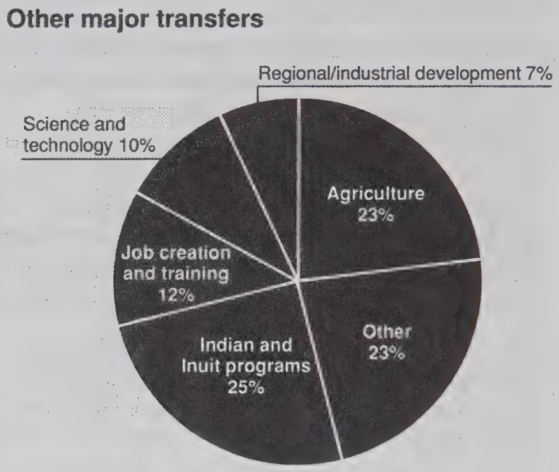
The government will spend about $13.5 billion this year on other major transfers. The largest portion of these transfers go to agricultural support and Indian and Inuit programs.

- **Agricultural support** in 1992-93 will be $3.1 billion (nearly double the level in 1984-85) reflecting aid for grain farmers affected by depressed world markets.
- Direct spending on services and programs for **Aboriginal Peoples** will be about $3.3 billion. This has grown at an average rate of 11.6 per cent a year since 1984-85.

As well, many federal departments operate programs that assist aboriginal peoples. As a result, total spending related to aboriginal peoples this year – including administrative costs, activities by Crown corporations and transfers to other levels of government – will total about $5 billion.

- **Job creation and training** transfers this year will be about $1.6 billion, primarily through the Canadian Jobs Strategy.

Further assistance for worker training is provided through the Unemployment Insurance Account. As a result, total spending on training and worker adjustment this year will be about $3.6 billion, over 50 per cent higher than in 1990-91.



Transfers to business:

- **Industrial and regional development** funding this year will be $0.9 billion, including spending by the Atlantic Canada Opportunities Agency and the Department of Western Economic Diversification.
- **Science and technology** transfers will be $1.3 billion, provided through national research councils and other programs. Annual increases in this spending are limited to 3 per cent under the Expenditure Control Plan.

The government also supports science, technology and research through the operations of government departments and agencies (such as the Canadian Space Agency) which are budgeted under Government operations (page 22). As a result, total federal spending related to research and technology last year exceeded $5.6 billion.

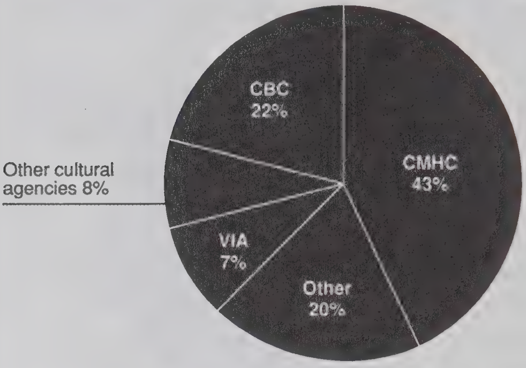
Further support for R&D is provided to business through the Scientific Research Tax Credit – the most generous of its kind among the G-7 major industrial nations. The value of these credits last year was about $1 billion.

- Energy and transportation transfers this year will total $0.7 billion – down dramatically from $4 billion in 1984-85.

Other transfers

- Remaining transfers total some $2.5 billion. This includes funding for student loans; assistance to provinces for official languages, legal aid, and spending related to young offenders; subsidies for publishers; women's programs; and support for athletic and fitness-related programs.

Payments to Crown corporations

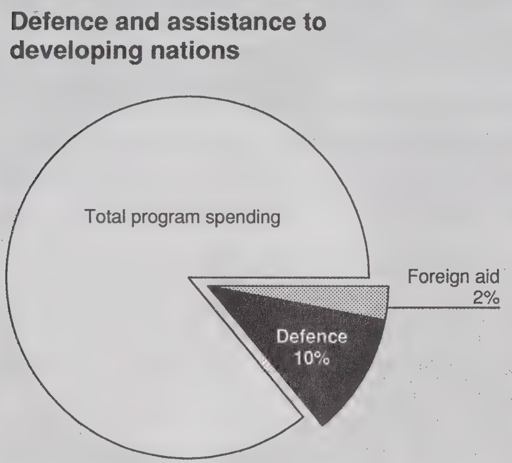


CROWN CORPORATIONS

Funding for Crown corporations will total $4.8 billion – almost $1 billion less than in 1984-85.

- The largest share, $2.1 billion, is for the Canada Mortgage and Housing Corporation.
- Support to cultural agencies will amount to $1.5 billion – of which $1.1 billion is for the CBC. The Expenditure Control Plan has reduced or frozen funding for most cultural agencies.
- Funding for Crown corporations in the commercial sector – such as Canada Post, VIA Rail, and Atomic Energy – will total $0.8 billion. This is down sharply from $2.2 billion in 1984-85.

Since 1984-85, the government has moved to privatize some 24 Crown corporations. This has helped reduce the number of Crown corporation employees by 80,000 compared to 1984-85.



DEFENCE AND ASSISTANCE TO DEVELOPING NATIONS

- **Defence** spending in 1992-93 will be $12.3 billion.
- With the disintegration of the former Communist bloc, the government has revised defence spending plans. This will result in savings of about $2.2 billion over five years.
- **Assistance to developing nations** of $2.8 billion includes cash and non-cash elements, and covers bilateral and multilateral aid, food, special development programs and emergency relief.
- The Expenditure Control Plan currently limits the growth in cash payments for international aid to 3 per cent a year.

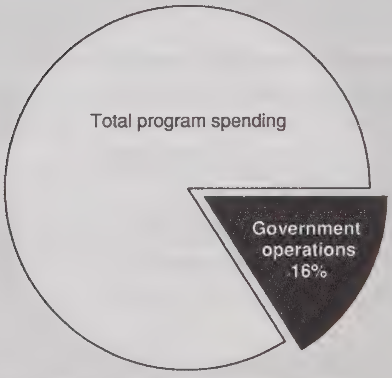
OTHER GOVERNMENT OPERATIONS

Spending on other government operations – $19.4 billion this year – is essentially the cost of running the government itself. This represents less than one-sixth of all program spending.

It covers the wages of the public service – including federal judges, customs officers, food inspectors, air controllers, the RCMP and all other federal employees except for defence and foreign aid staff. It also covers the cost of utilities, materials and supplies; repair and maintenance of federal facilities; transportation, communications and capital spending.

Between 1984-85 and this year, these costs have increased by an average of only 3.5 per cent annually – below inflation for the period. This means that in real terms, the cost of government operations is actually lower than eight years ago.

Other government operations



In the 1992 budget, the government announced further action to streamline the operations of government to improve efficiency and service to Canadians and to control costs.

- Some 46 government organizations will be eliminated, deferred, merged with other operations or privatized. As a result, there will be 160 fewer government appointments and 500 fewer employees. Savings will reach $22 million per year on an ongoing basis.
- Supply and Services Canada will move to "just-in-time" (as needed) printing of forms. This will save warehousing costs currently estimated at several million dollars each year.
- The government has frozen rates paid to its legal agents for a year. It will also impose greater discipline on rates paid to other contractors.

Improving service to Canadians

The 1992 budget also proposed further action to simplify procedures for dealing with government and to allow public servants to better serve the public. These include:

- Federal departments and agencies offering related services will take all reasonable steps to bring their services together in one place.
- Many businesses currently need up to six separate registration numbers for their dealings with different federal departments. The government intends to develop a single registration number in cases where this would help firms and reduce government costs.
- Departments will emphasize a more client-centred approach to doing business. This will include working to offer more accessible hours of service and faster response times.

- The government will undertake a department-by-department review of existing regulations to eliminate those which undercut business efficiency without serving real public needs. This review – by a Parliamentary committee – will start with Agriculture Canada, Transport Canada and Consumer and Corporate Affairs.

For more information: Further material is available on government spending and budgetary issues. If you would like to receive more information, write or telephone:

Distribution Centre
Department of Finance
Ottawa K1A 0G5

Tel: *(613)* 995-2855
Fax: *(613)* 996-0518